AFRICAN REINSURANCE CORPORATION
GENERAL ASSEMBLY
9TH ANNUAL ORDINARY MEETING
BRAZZAVILLE, CONGO, 18-19 JUNE 1987

AFRICARE/GA/11/63

Report of the Board of Directors covering the period 1st January to 31st December, 1986

AFRICAN REINSURANCE CORPORATION
SOCIETE AFRICAINE DE REASSURANCE

HEADQUARTERS

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Date: 18th June, 1987

Honourable Representatives
General Assembly
African Reinsurance Corporation

Your Excellencies,

In accordance with the provisions of Articles 14 and 37 of the Agreement Establishing the African Reinsurance Corporation and Article 8 of the General Regulations of the Corporation, I have the honour, on behalf of the Board of Directors, to submit to you the Annual Report and Audited Accounts of the Corporation for the period from 1st January to 31st December, 1986, as well as the Summary of the Administrative Budget for the financial year 1987.

Please accept, Your Excellencies, the assurances of my highest consideration.

Ezzat Abdel Bary

EZZAT ABDEL BARY
Chairman of the Board of Directors
and General Assembly

COMPOSITION OF AFRICA RE BOARD OF DIRECTORS

	Alternate Directors
Chairman Ezzat M. ABDEL BARY (Egypt)	Jada LORERE (Sudan)
Vice–Chairman Eugene OKWOR (Nigeria)	M.A. DARKOH (Ghana)
Directors S. KANOUNI (Morocco)	M.S. NAAS (Libya)
A. BEZABEH (Ethiopia)	F.F. MAGEZI (Uganda)
A.T. KAMINCHIA (Kenya)	S.H. KONIE (Zambia)
I. IDDI ANGO (Niger)	A.A. AMAVI (Togo)
R. IBATA (CONGO)	Mrs. C. KOYAGA (C.A.R.)
F. LAZRI (Algeria)	Cheikh O.A. LOULY (Mauritania)
M.L. YUMA (A.D.B.)	E.M. DOGBE (A.D.B.)

COMPOSITION OF AFRICA RE MANAGEMENT

Eyessus W. ZAFU
General Manager and Chief Executive

Ahmed E.A. ELSANUSI
Deputy General Manager

Bakary KAMARA
Secretary General

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Foreword

In accordance with the Corporation's three year basis of accounting, the 9th Annual Report and Accounts for Financial Year 1986 comprises the final results for Underwriting Year 1984 (closed for the first time), previously closed underwriting years (1978 to 1983) and the still open underwriting years of 1985 and 1986. The Report incorporates comments on the Corporation's performance during the Financial Year against the background of its trading environment, the Report of the External Auditors on the Accounts, Resolutions adopted by the 8th Annual General Meeting and a summary of the Corporation's 1987 Administrative Budget as approved by the Board.

For the year under report, a net profit of US$928,482 was achieved. This is lower than that of the previous year (US$2,149,273) inspite of a higher profit transfer from the Underwriting Revenue Account in 1986 than in 1985. The main factors which influenced the net result were:

—The massive depreciation of one of the important income currencies of the Corporation and the continued operational difficulties associated with that market;

—the increasing loss burden emanating from the run-off of international inward businesses previously accepted by the Corporation.

The problem of negative difference in exchange assumed a serious proportion once again. An amount of US$3,682,631 was written off from the 1986 Profit and Loss Account of which the losses associated with operational problems in one market alone amounted to US$3,662,295, clearly indicating the urgent need to resolve these problems.

As in previous years, the positive result achieved is mainly attributable to the relatively profitable nature of the Corporation's portfolio, the continued relative weakness of the U.S. Dollar, the adoption of multi-currency accounting, and last but not least, the successful containment of administrative expenses.

The computerization project initiated in 1985 has shown gradual but sure satisfactory progress. By the end of 1986 arrangements were completed for assessing the suitability, prior to testing, of programmes in the major areas of Contracts, Technical and Financial Accounts Systems.

The project of the 3rd Regional Office in Abidjan, Côte d'Ivoire, was successfully completed and the Office infact became operational from 1st January, 1987. In this respect, the favourable disposition of and the despatch with which the Government of Côte d'Ivoire finalized the necessary formalities deserve special mention and appreciation.

In addition to continued consolidation of past achievements, the Corporation has shown satisfactory progress in its planning and organisational capabilities. The introduction in 1986 of the first Corporate Plan is considered as one of such forward-looking developments.

The Corporation seized the opportunity of its 10th Anniversary Commemoration to extend its appreciation to all Ceding Companies and its associates for their continued support and to assure them of its wishes for more and closer interactions in the years ahead.

Your Board of Directors continues to be encouraged not only by the positive results the Corporation has achieved in 1986 but also by its prospects of future performances. It extends its appreciation to all Member and Non-Member States, ceding companies and sister institutions for their continued support, the Management and Staff of the Corporation for their dedication and hardwork without which these results would not have been posssible.

Trading Environment

The Corporation's 1986 trading environment remained essentially the same as in 1985. Most African economies continued to experience serious difficulties. If anything, the combined effects of falling prices of their primary commodity exports and their increasing debt burden tended to aggravate the difficulties. In a growing number of countries, measures taken to bring about needed economic structural adjustments worsened the immediate problems. But these are seen as the sacrifices that must be made for a better future.

The insurance sector in many national economies showed little or no growth while in some, notably in economies undergoing structural adjustments, the sector experienced considerable negative growth.

The development of the Corporation's premium income (which registered a significant fall) was, therefore, to a large extent, a reflection of the overall economic condition which prevailed in the Continent.

On the reinsurance scene, the recent contraction of international capacity combined with increasing cases of failures of reinsurers, tended to limit the choices of African companies to the few, traditional market leaders, who in turn appeared to follow a seemingly co-ordinated policy of harder and more restrictive reinsurance terms and conditions.

While the difficult conditions of the various national economies were reflected by the considerable fall in the Corporation's gross premium income, the continued hardening terms of reinsurance is expected to result in improved profitability. And in cognizance of these developments, the Corporation has stepped-up its marketing and servicing efforts in a bid to increase its market share of the Continent's relatively profitable reinsurance portfolio.

More specific developments during the year having relevance to the Corporation's present and future trading were:

—The establishment in Algeria of a new company, Compagnie Algérienne D'Assurances Transports "CAAT" to underwrite all Marine and Aviation business, and the decision by that market to retain in full Accident business.

—The establishment of a minimum capital requirement in Tunisia (2 million Tunisian Dinars) and the decision to make Contractors Guarantee Insurance (R.C. Decennale) obligatory.

—The introduction of the Second-Tier Foreign Exchange Market in Nigeria under which fall reinsurance premium remittances/conversions.

—The introduction of a Second-Window Foreign Exchange Market in Ghana after several devaluations of the Cedi in previous years.

—The establishment of 2 Life and 1 Composite companies, and the liquidation of 1 company in Senegal.

—The establishment of 1 company each in Côte d'Ivoire, Burundi and Kenya.

—The appointment of a Commission of Enquiry by the President of the Republic of Kenya to study and make recommendations on the Motor Tariff.

—The coming into effect, in the Republic of Kenya, of the 1984 Insurance Act.

Operations

For reasons of administrative convenience, the Corporation has grouped African countries into four trading areas — West Africa (English-speaking), Central Africa (French-speaking West and Central Africa), North Africa and East and Southern Africa. While the first two are administered from Corporate Headquarters in Lagos, Nigeria, the latter two are administered through Casablanca and Nairobi Regional Offices respectively.

Acceptances from outside Africa are handled by the International Division (sometimes referred to as "Worldwide") which is also administered from Headquarters.

Similarly, the Corporation groups the various classes of business it writes into three branches– Fire & Accident (including Engineering), Marine & Aviation and Life.

INCOME

The Corporation, during Financial Year 1986, recorded a Gross Premium Income of US$34.5m. This was markedly lower (21%) than that of the previous year (US$43.71m).

The full extent of the drop was not anticipated. While the serious depreciation during the year, of one of its important income currencies most influenced the volume, there were also other anticipated factors:

—As in 1985, general economic conditions in most of the countries from where the Corporation traditionally derived a large proportion of its income continued to limit premium growth in its reporting currency, the U.S. Dollar.

—The original currency accounting implemented from 1st January, 1985, was continued during 1986 and translation into U.S. Dollars at rates ruling on the Balance Sheet date significantly reduced the Gross Premium.

—Finally, the expected effect of the Corporation's disengagement from non-regional inward business started to set in during the year. Income from such portfolio in 1986 was 11% lower than in 1985.

DEVELOPMENT OF GROSS PREMIUM INCOME BY FINANCIAL YEAR

Geographical Distribution

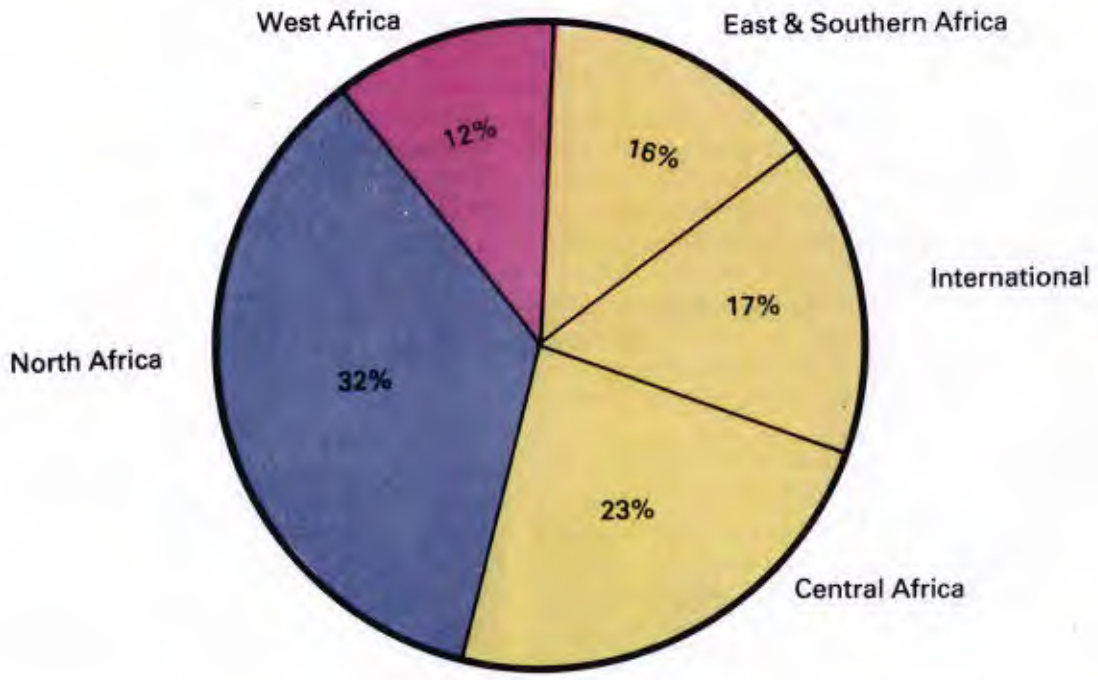
During the year under report, the structure of the geograghical distribution of the Corporation's premium income underwent considerable change. Although the North Africa trading area remained the highest income producer in absolute terms, its relative share of the total premium at 32% was nevertheless 9 percentage points lower than in 1985. Central Africa's contribution to total premium increased significantly both in absolute and relative terms. With a gain of 12 percentage points over 1985, it became the second highest (23%) income producing area. The relative strength of the area's currency (CFA Franc) against the U.S. Dollar contributed to this development.

Income from non-regional inward acceptances fell in absolute terms but its relative importance (17%) in 1986 was 2 percentage points higher than in 1985. The East and Southern Africa trading area produced about the same premium as in the previous year but its relative contribution in 1986 at 16% was 4 percentage points more than in 1985. Income from this area was affected by appreciable depreciation of some currencies.

The West Africa trading area which since the inception of the Corporation, produced the second highest income, accounted for only 12% in 1986. The single most decisive factor was the serious depreciation, during the year, of the most important income currency in the area.

Considering the structures of treaties of cedants and the Corporation's financial base, Central Africa and East & Southern Africa present considerable income growth possibilities in the years ahead. Considerably reduced as the premium income from the West Africa trading area may be, its relative contribution to underwriting surplus is expected to be significant.

DISTRIBUTION OF GROSS PREMIUM INCOME BY TRADING AREA–FINANCIAL YEAR 1986



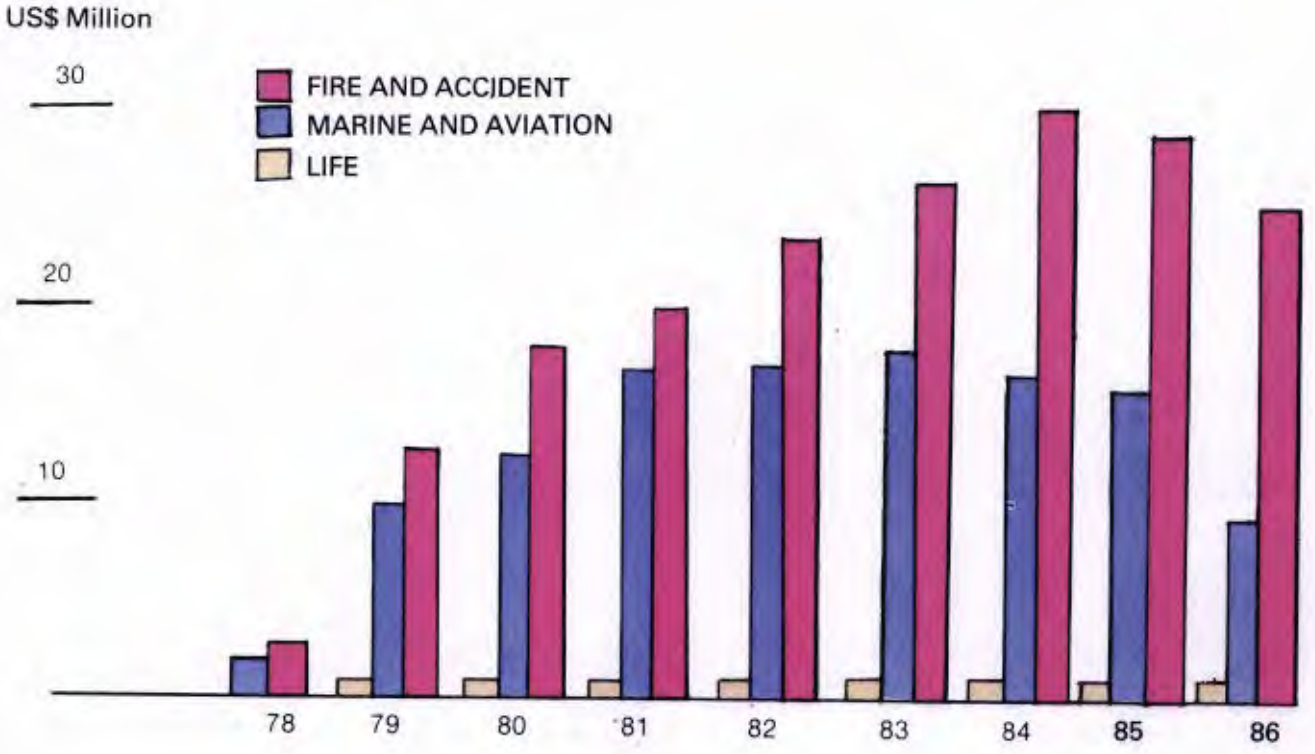
Sectoral Distribution

As in previous years, the Fire & Accident Branch (including Engineering) constituted the highest proportion of total income. In 1986 it accounted for 71.50% as against 65.90% in 1985. However, in absolute terms, it recorded a fall of 15.50% from the previous year. The shortfall happened in both West (47.22%) and North Africa (35.14%). Among other reasons, the drop of income in the North was mainly for technical reasons while that in the West was caused by currency depreciation. Significant though it was, the increase in Central Africa (69.11%) could not fully compensate for the shortfalls in North and West Africa.

Marine & Aviation Branch made up 26.50% of total premium income. Its contribution, in absolute terms, was 36% lower than in the previous year. As in Fire & Accident, the highest shortfalls were recorded in West (66.27%) and North Africa (43.35%). Again, the significant increase (51.25%) from Central Africa was not enough to off-set the shortfalls in the other two areas.

The Life Branch registered a 12.8% increase in income during the year. However, the relative contribution of this Branch (2%) to total income was so small that it could not materially influence the overall result.

DEVELOPMENT OF GROSS PREMIUM INCOME— BY BRANCH—BY FINANCIAL YEAR



OTHER INCOMES

Short-Term Investments and Comments

Interest rates on short-term Dollar deposits continued to be low, between 5.5% and 6.5% per annum, throughout 1986. The Corporation maintained a considerable portion of its short-term investments in this currency. The income received from this investment in 1986 amounted to US$560,368 which with income from other sources, including profit on the disposal of assets, totalled US$612,917 against a similar income of US$535,596 during 1985. On the other hand, interest on reinsurance deposits produced an income of US$820,623 in 1986 against a similar income of US$679,240 in 1985. While the marginal increase in income from short-term investments was accounted for by the slight increase in invested funds the significant increase in interest on reinsurance deposits reflected, more than anything else, the rise of interest rates on deposits retained by ceding companies. On the whole, the low level of income from investment reflects the fact that the Corporation's investable resources are still limited.

Long-Term Investment

The Corporation's only long-term investment during 1986 was that in the Company for Habitat and Housing in Africa (Shelter-Afrique). No income was received from that investment during 1986. However, that Company's account as at 31.12.86 showed that shareholders' equity remained undiminished.

OUTGO

Losses & Loss Ratio

With Gross Loss up from US$18.27m in 1985 to US$21.25m in 1986 and Gross Premium down from US$43.71m to US$34.51m for the same period, the ratio of Gross Loss to Gross Premium showed a marked increase from 41.80% to 61.56%. The deterioration in the loss experience was reflected in all Branches and portfolio regions. Over 80% of the Gross Loss recorded in 1986 related to underwriting years 1983 to 1986, perhaps indicating a deteriorating loss trend as well as a reflection of the Corporation's improved speed with which claims are being settled. While the ratio for Fire & Accident Branch rose from 42.92% to 61.35%, that for Marine & Aviation rose from 39.22% to 62.14%. On the other hand, the ratio for the Life Branch dropped from 49.18% to 43.48%.

Though still higher than for the previous year, the regional portfolio recorded a ratio of 53.21% while the International inward acceptance portfolio registered a gross loss ratio of 102.57%. The corresponding ratios for 1985 were 37.15% and 74.39% respectively.

In terms of the Corporation's trading areas, North Africa with 78.27%, produced the highest loss ratio followed by East and Southern Africa with 48.25%. West & Central Africa (French-speaking) recorded a ratio of 36.49% while English-speaking West Africa with 24.46% experienced the lowest loss ratio.

GROSS LOSS RATIO BY BRANCH FINANCIAL YEAR 1986

(In US$ Million)

LOSS/PREM. / BRANCH	REGIONAL BUSINESS			INTERNATIONAL BUSINESS			TOTAL CORPORATE		
	Losses	Premiums	Loss Ratio %	Losses	Premiums	Loss Ratio %	Losses	Premiums	Loss Ratio %
FIRE & ACCIDENT	9.86	19.13	51.54	5.41	5.56	97.30	15.27	24.69	61.85
MARINE & AVIAT.	5.10	8.86	57.56	0.58	0.28	207.14	5.68	9.14	62.14
LIFE	0.30	0.69	43.48	—	—	—	0.30	0.69	43.48
ALL BRANCHES	15.26	28.68	53.21	5.99	5.84	102.57	21.25	34.52	61.56

RETENTION AND RETROCESSIONS

During Financial Year 1986, the Corporation retroceded US$3,263,069.68 or 9.5% of the Gross Premium written. This compares with a retrocession of 19.47% for the previous year and reflects corporate underwriting policy which aims at retaining as much of its regional acceptances as its technical and financial capabilities permit. Substantially, retrocessions went to African Companies participating in the AFRICAN RETRO PROGRAMME (AUTOFAC/1ST SURPLUS), once again reflecting the corporate policy which aims at sharing/spreading of regional risks among regional risk carriers.

RESULTS OF THE UNDERWRITING YEAR 1984

In accordance with the accounting policy of the Corporation, results were determined for each class of business for the Underwriting Year 1984 at 31st December, 1986, having been left open for three years in order to receive and bring into account late statements of account.

There was no major change over the previous year in the Corporation's basis for computing reserves for outstanding claims for closed underwriting years. Those measures taken in the previous years to marginally raise the reserves for the non-life branches have been maintained and applied to the Underwriting Year 1984 which is closed for the first time this year.

After meeting all obligations assumed under treaties ceded to the Corporation and providing reserves for outstanding claims, the 1984 Underwriting Year showed a profit of US$2,545,923 (1983 US$1,362,657) which has been reflected in the overall profits shown in the Underwriting Revenue Account for the year ended 31st December, 1986.

RESULTS OF THE FINANCIAL YEAR 1986

Reinsurance transactions for all underwriting years during the Financial Year 1986 are accounted for in the Underwriting Revenue Account for the year ended 31st December, 1986. The retained premium income for the Financial Year 1986 amounted to US$31,250,702 (1985–US$35,201,996). Underwriting acquisition costs and expenses amounted to US$28,528,807 (1985–US$29,338,580) which, deducted from the retained premiums, left a balance of US$2,721,895 (1985–US$5,863,416). Reinsurance and Reserve Funds brought forward from the previous years totalled US$27,710,735 while the amount carried forward at December 31, 1986 in respect of these funds was US$26,795,131. These transactions left an underwriting profit of US$3,637,499 on the Underwriting Revenue Account for all the closed years. The amount was taken to the Profit and Loss Account.

Investment and other incomes yielded US$1,433,540 (1985–US$1,215,835). Other financial outgo totalling US$4,142,557 (1985–US$1,099,476) was also written off which left a net profit of US$928,482 (1985–US$2,149,272) for the financial year 1986.

The Directors do not recommend payment of dividends.

Other Activities

1. Relations with Other Organisations

In 1986, the African Reinsurance Corporation maintained and developed its relationship with African sister organisations such as the Fédération des Sociétés d'Assurances de Droit National Africaines (FANAF), the West African Insurance Consultative Association (WAICA), the Organisation of East African Insurers (OEAI), the General Arab Insurance Union (GAIU), the African Insurance Organisation (AIO) and CICA Re.

Management also visited the General Secretariat of the Organisation of African Unity (OAU), in a bid to examine with the institution, ways and means of strengthening co-operation in the field of insurance and reinsurance in Africa. The Corporation participated in the African Insurance Clearing House Project initiated by the African Insurance Organisation. It is a long-term project the successful implementation of which could increase significantly the volume of business exchange between markets and thus bring about the retention in Africa of more reinsurance premiums. Its administration of the African Aviation Pool on behalf of African Retrocessionaires, has been carried out from Headquarters, starting from August, 1986. More companies subscribed to the Pool at renewal in December, 1986 while some withdrew. Nevertheless, the Pool's capacity for the current business year, is slightly more than what it was for the previous year.

2. Staff Matters

The Corporation's staff strength increased by 5 employees in 1986 over 1985, from 114 to 119, nationals of 15 African countries.

ESTABLISHMENT STATUS ANALYSED BY NATIONALITY/STAFF CATEGORY AS AT 31.12.86

NATIONALITY	D	P	SP	G	M	TOTAL
Algeria	1					1
Angola		1				1
Benin		2		4		6
Cameroun		1				1
Ethiopia		1				1
Ghana	1	3	1	1	1	7
Kenya	1	1		12	2	16
Mauritius	1					1
Morocco		1	1	8	2	12
Nigeria		8	2	46	10	66
Senegal		1				1
Sierra Leone		1				1
Tanzania		1				1
Togo		2		1		3
Uganda		1				1
Total	4	24	4	72	15	119

3. General Assembly

The General Assembly held its 8th Annual Ordinary Meeting in Bujumbura, Burundi on 24th, 25th and 26th June, 1986, at the invitation of the government of the Republic of Burundi. Thirty one Member States and the African Development Bank participated, accounting for 92.27% of voting powers. The non-member States of Madagascar and Rwanda, as well as sister organisations, insurance and reinsurance associations and companies, attended as observers.

The formal opening ceremony was performed by His Excellency, Mr. P. NGENZI, Minister of Finance of the Republic of Burundi, who in his opening speech deplored the fact that fora organised to discuss African problems rarely result in concrete action. Thereafter he reiterated the often expressed wish to see inter-African co-operation in the field of insurance and reinsurance strengthened, and the African Reinsurance Corporation, ten years after its creation in Yaounde, participate more meaningfully in the continent's economic and social development.

During the meeting, the General Assembly adopted the Annual Report of the Board of Directors as well as the External Auditor's report on the Final Accounts, Balance Sheet and Profit and Loss Accounts of the Corporation as at 31st December, 1985. A new Board of Directors was elected for a three-year term beginning June 1986. The General Assembly also renewed the term of the External Auditors, Akintola Williams & Co. of Nigeria, to audit the accounts of the 1986 financial year, and the Resolutions Committee for the 9th Annual Ordinary Meeting, comprising Burundi, Mauritius, Benin and Libya was constituted.

Furthermore, the General Assembly reiterated its appeal to Member States and ceding companies to promptly discharge their obligations, and at the same time invited the Board and Management to do the same as far as the Corporation's obligations to its trading partners were concerned.

Finally, at the invitation of the People's Republic of Congo, the General Assembly decided to hold its 9th Annual Ordinary Meeting in Brazzaville, Congo, on 19th and 20th June, 1987.

4. Board of Directors

During the year under review, the Board of Directors held four (4) meetings at the dates and venues indicated below:

Meeting	Date	Venue
34th Meeting	16th & 17th April, 1986	Dakar, Senegal
35th Meeting	22nd June, 1986	Bujumbura, Burundi
36th Meeting	26th June, 1986	Bujumbura, Burundi
37th Meeting	10th & 11th November, 1986	Lagos, Nigeria.

Among other management decisions in 1986, the Board modified the Corporation's Staff Regulations with the introduction of the concept of permanent career and authorised the beginning of operations in the Third Regional Office located in Abidjan, with effect from 1st January, 1987. It also decided to computerize the Corporation's operations and accounts. The Board valuated Africa Re's Shares at US$12,000 per share as at 31st December, 1986, in accordance with Article 5, paragraph 3 of the Agreement Establishing the Corporation.

With the expiration of the term of office of the 3rd Board in June 1986, new Directors were elected at the 8th Annual Ordinary Meeting of the General Assembly. They in turn designated their Alternates. The new Board, which elected as its Chairman and Vice Chairman, Messrs. Ezzat ABDEL BARY (Egypt) and Eugene OKWOR (Nigeria) respectively, has, as members:-

Directors		Alternates	
—Farouk Lazri	(Algeria)	Cheikh O. Ahmed Louly	(Mauritania)
—Raymond Ibata	(Congo)	Mme Cecile Koyaga	(C.A.R.)
—Ayalew Bezabeh	(Ethiopia)	F.F. Magezi	(Uganda)
—Alexander Kaminchia	(Kenya)	S.H. Konie	(Zambia)
—Saad Kanouni	(Morocco)	M.S. Naas	(Libya)
—Ibrahim Iddi Ango	(Niger)	Ayi Amavi	(Togo)
—Morisho Yuma	(A.D.B.)	E.M. Dogbe	(A.D.B.)

Messrs. Jada LORERE (Sudan) and M.A. DARKOH (Ghana) were nominated as Alternates to Messrs. ABDEL BARY and OKWOR respectively.

LOOKING AHEAD

Though no mean achievement in itself, the Corporation's net result for the year under report was decisively affected by factors unrelated to normal reinsurance operations. The satisfactory resolution of persisting operational problems in some Member States is not only desirable but a necessary condition for Africa Re's continued growth and development without recourse to calling up for payment of the unpaid portion (50%) of shares already subscribed for.

The implementation in 1987 of its Computerization Programme is expected to improve its processing of reinsurance transactions and its response time to clients' needs.

The Corporation's progress during 1986 has enhanced both its financial strength and technical capability. The opening of its 3rd Regional Office in Abidjan, Côte d'Ivoire, brings these capabilities nearer than ever before to more ceding companies. This in turn is expected to enable the Corporation to consolidate its already satisfactory interactions and premium income.

In recent years, its operations in the markets of Non-Member States have progressed satisfactorily. Apart from the incomes being derived from such markets, its increased familiarity coupled with its progressive strengthening, is expected to advance its wish for adherence of these States to Membership.

Recent developments in the international reinsurance market clearly indicate that African Companies will be required to export more premiums for more restricted covers, a trend which may logically be expected to encourage such companies to reduce their extensive reliance on foreign markets. Simultaneously, Africa Re plans to pursue its present client-centred and service oriented marketing strategy to demonstrate to African cedants the benefits of consolidating their own regional reinsurance market. Preliminary studies are being made regarding the possibility of creating a forum for African reinsurance institutions to share views on ways and means for enhancing intra-African business exchange either through existing schemes or by creating new ones or a combination of both. The strategic value of such a forum need not be over-emphasized.

In this connection, Africa Re will, in collaboration with the African Insurance Organization, pursue the African Insurance Clearing House project not as an end in itself but as a necessary catalyst in intra-African business exchange.

Its AFRICAN RETRO PROGRAMME continues to develop very satisfactorily. The Programme which is exclusively African (both in the business it accepts and the retrocessionaires) catches premiums mainly of larger risks which because of their sizes and the technologies employed are often well underwritten. It offers African companies the kind of

portfolio spread, balance and qualitatively comparable reciprocity they could not achieve or obtain individually. Africa Re will continue therefore to encourage companies with requisite financial and technical capabilities to subscribe to this Programme. At the same time, participating companies will be encouraged to cede more business to enhance the income to the Programme.

The African Aviation Pool, which is managed by the Corporation, has also continued to show satisfactory results. Writing African Airlines only, (an industry which is being made to pay very high premiums for the disastrous aviation experience worldwide), the Pool offers a relatively balanced business in which companies can participate. Although its membership increased slightly in 1986, efforts will continue to raise both the Pool capacity and the number of participants.

Africa Re is encouraged by developments in some national and sub-regional markets aiming to maximize retentions before recourse to the international market. In addition to its participations in such schemes, it is prepared to assist in both the creation and/or management of such exchanges as one of its cardinal objectives–that of enhancing the underwriting and retention capacity of the African insurance/reinsurance industry.

Africa Re 10th Year Anniversary Celebrations at the Casablanca Regional Office.

FINANCIAL HIGHLIGHTS
FIVE YEARS SUMMARY ENDING DECEMBER 31, 1986
(IN '000 US$)

Description \ Financial Year	1986	1985	1984	1983	1982
FINANCIAL POSITION					
1. Fixed Assets	607.50	573.98	519.88	624.98	365.78
2. Investments	7,720.00	7,387.05	4,918.98	3,922.08	3,954.53
3. Working Capital	26,289.47	25,874.59	22,116.29	21,935.67	13,843.99
4. Shareholders Funds	7,547.99	6,619.51	4,470.23	3,971.93	3,629.80
5. Reserve fund at December 31.	14,927.17	13,328.00	12,100.00	9,424.57	7,008.06
6. Reinsurance Funds at December 31	12,141.81	13,888.13	10,984.91	13,086.23	7,526.44
PROFIT AND LOSS					
7. Income from investments and interest	612.97	536.60	491.74	334.59	605.59
8. Expenses of General Assembly and Board of Directors' meetings	218.02	306.87	309.15	444.57	527.72
9. Management Expenses	2,548.45	2,863.40	3,137.35	3,036.84	2,711.38
10. Profit/(Loss) for the year	928.48	2,149.27	498.31	342.13	(1,877.79)
UNDERWRITING REVENUE ACCOUNTS					
11. Total Gross Premium Income written in respect of all underwriting years	34,513.77	43,714.27	47,088.50	52,551.37	32,783.76
12. Retained Premium in respect of all underwriting years.	31,250.70	35,201.99	36,533.54	41,298.92	23,927.52
13. Net Outgo being claims, commissions, charges and other expenses	28,528.45	29,338.58	33,356.24	28,140.24	20,188.01
14. Underwriting surplus	3,637.50	2,032.91	2,566.36	4,423.90	3,074.50

REPORT OF THE EXTERNAL AUDITORS
To the Members of the African Reinsurance Corporation

We have examined the financial statements of African Reinsurance Corporation on pages 16 to 22 in accordance with internationally accepted auditing standards which accordingly included such tests of the accounting records and such other auditing procedures we considered necessary in the circumstances.

In our opinion, the financial statements present fairly the financial position of African Reinsurance Corporation at 31st December, 1986, and the results of its operations and source and use of funds for the year then ended, in conformity with internationally accepted accounting principles.

Lagos, Nigeria
9th April, 1987

Akintola Williams & Co.
Chartered Accountants

AFRICAN REINSURANCE CORPORATION
BALANCE SHEET AT 31ST DECEMBER, 1986

	Note	1986 US$	1986 US$	1985 US$	1985 US$
RESOURCES EMPLOYED					
Investments	3		7,719,999		7,387,052
Current Assets					
Amount due from Companies on Reinsurance Accounts		13,374,807		16,642,997	
Deposits retained by Ceding Companies		28,562,070		32,824,870	
Sundry Debtors, Accrued Interest and Prepayments		454,907		434,893	
Bank and Cash Balances	4	3,723,443		2,358,280	
		46,115,227		52,261,040	
Less: **Current Liabilities**					
Amount due to Companies on Reinsurance Accounts		11,375,926		13,667,666	
Deposits due to Retrocessionaires		7,763,840		11,686,556	
Other Creditors, Accruals and Provisions		685,995		1,032,228	
		19,825,761		26,386,450	
Net Current Assets			26,289,466		25,874,590
Fixed Assets	5		607,503		573,997
			34,616,968		33,835,639
FUNDED BY					
Paid-up Capital	6		4,660,000		4,660,000
General Reserve			561,596		561,596
Retained Earnings	7		2,326,393		1,397,911
			7,547,989		6,619,507
Reinsurance and Reserve Funds	8		27,068,979		27,216,132
			34,616,968		33,835,639

EZZAT ABDEL BARY Chairman

EYESSUS W. ZAFU General Manager

The accompanying notes on pages 20 to 22 form part of these financial statements.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST, DECEMBER, 1986

	1986		1985	
	US$	US$	US$	US$
Profit transferred from Underwriting Revenue Account:		3,637,499		2,032,912
Income from Investments and Other Sources		612,917		536,596
Interest on Reinsurance Deposits		820,623		679,240
		5,071,039		3,248,748
Expenses not charged to Underwriting Revenue Account:				
General Assembly and Board of Directors Meetings	288,017		306,872	
Audit Fee	38,000		38,000	
Depreciation and Amortisation	133,909		123,755	
Loss on Exchange	3,682,631		630,849	
		4,142,557		1,099,476
Net Profit for the year transferred to Retained Earnings (Note 7)		928,482		2,149,272

The accompanying notes on pages 20 to 22 form part of these financial statements.

UNDERWRITING REVENUE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 1986

	Fire and Accident	Marine and Aviation	Life	Total 1986	Total 1985
	US$	US$	US$	US$	US$
Underwriting Income:					
Gross Premiums	24,689,586	9,136,457	687,729	34,513,772	43,714,271
Less: Retrocessions	2,633,729	629,341	—	3,263,070	8,512,275
	22,055,857	8,507,116	687,729	31,250,702	35,201,996
Underwriting Outgo:					
Claims	10,513,515	4,566,591	295,277	15,375,383	13,409,066
Commissions	5,996,503	2,624,297	115,098	8,735,898	10,934,562
Excess of Loss Premiums	927,417	328,510	—	1,255,927	1,265,616
Charges	388,328	222,560	2,260	613,148	865,932
Management Expenses	1,859,927	658,825	29,699	2,548,451	2,863,404
	19,685,690	8,400,783	442,334	28,528,807	29,338,580
Excess of Income over Outgo	2,370,167	106,333	245,395	2,721,895	5,863,416
Reinsurance and Reserve Funds: At 1st January	14,109,555	12,697,016	904,164	27,710,735	23,880,232
At 31st December	(13,456,187)	(12,258,562)	(1,080,382)	(26,795,131)	(27,710,735)
Underwriting Profit transferred to Profit and Loss Account	3,023,535	544,787	69,177	3,637,499	2,032,912

The accompanying notes on pages 20 to 22 form part of these financial statements.

STATEMENT OF SOURCE AND USE OF FUNDS FOR THE YEAR ENDED 31ST DECEMBER, 1986

	1986		1985	
	US$	US$	US$	US$
SOURCE OF FUNDS				
Net Operating Profit		928,482		2,149,272
Sale of Fixed Assets		—		4,189
		928,482		2,153,461
Adjustment for items not involving the movement of Funds—				
Depreciation and Amortisation		133,909		123,755
Reinsurance and Reserve Fund		(147,152)		4,131,222
Funds Generated from Operations		915,239		6,408,438
USE OF FUNDS				
Purchase of Fixed Assets		(167,415)		(182,059)
NET INFLOW OF FUNDS		747,824		6,226,379
Represented by—				
MOVEMENT IN WORKING CAPITAL				
Amount due from Companies on Reinsurance Accounts		(3,268,190)		2,633,437
Deposits Retained by Ceding Companies		(4,262,799)		559,418
Sundry Debtors, Accrued Interest and Prepayments		20,014		158,693
Amount due to Companies on Reinsurance Accounts		2,291,740		960,463
Deposits due to Retrocessionaires		3,922,716		1,395,569
Other Creditors, Accruals and Provisions		346,233		(46,213)
		(950,286)		5,661,367
Net Movement in Investments and Liquid Funds:-				
Investments	332,947		2,468,076	
Bank and Cash Balances	1,365,163		(1,903,064)	
		1,698,110		565,012
		747,824		6,226,379

The accompanying notes on pages 20 to 22 form part of these financial statements.

NOTES TO THE 1986 FINANCIAL STATEMENTS

NOTE 1

OPERATIONS

The African Reinsurance Corporation was established by member countries of the Organisation of African Unity and the African Development Bank as an intergovernmental institution for the purpose of (1) mobilizing financial resources from insurance and reinsurance operations, (2) investing in Africa such funds to help accelerate economic development, and (3) fostering the development of the insurance and reinsurance industry in Africa by promoting the growth of national, regional and sub-regional underwriting and retention capacities. To achieve its purpose the Corporation transacts reinsurance business through treaty and facultative cessions in respect of all classes of insurance inside as well as outside Africa, creates and/or administers pools and/or other exchange schemes for the various risks for the account and to the interest of African insurance and reinsurance markets.

NOTE 2

ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted in the preparation of the financial statements:-

(a) **Underwriting Revenue Account, and Reinsurance and Reserve Funds**

All underwriting accounts are maintained on underwriting year basis and the accounts of each underwriting year are kept open for three years during which the surplus of income over outgo is carried forward as Reinsurance Funds.

At the end of the third year of each underwriting year when the underwriting accounts are closed, the reinsurance funds are brought back to the revenue accounts of the said year and a Reserve Fund is provided to meet any outstanding claims. The adequacy of the reserve fund is considered at the end of each subsequent year and necessary adjustments thereto are made accordingly.

(b) **Currency Translation**

(i) The Corporation keeps its accounts in United States Dollars. Assets and liabilities in currencies other than the United States Dollars are converted at rates of exchange at the Balance Sheet date.

(ii) Underwriting revenue items originating in currencies other than the United States Dollar are accumulated in the operative currencies and translated at rates of exchange ruling at the Balance Sheet date. Operational expenses are translated at rates prevailing at the time such expenses are incurred.

(iii) Exchange differences arising from settlement of monetary items or from conversion of assets and liabilities at year end rates of exchange are taken to the profit and loss account except that exchange differences on reinsurance deposits retained by ceding companies for the still open underwriting years are taken to the Reinsurance Funds.

(c) **Investments**

Short term investments are stated at cost or market value whichever is the lower. Long term investments are stated at cost unless there is a permanent decrease in their value, in which case a provision is made therefor.

(d) **Fixed Assets and Depreciation**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of fixed assets in equal annual instalments over the estimated useful life of each category of fixed assets at the following annual rates:-

Freehold and Capital Leasehold Property
—2% or over the leasehold period if less than 50 years.

Furniture, Fittings and Equipment
—Between 12½% and 33 1/3%.

Motor Vehicle
—25%.

(e) **Debtors**

Debtors are stated after deducting provision made for specific debts considered doubtful of recovery.

(f) **Management Expenses**

Management expenses have been apportioned to the classes of business in the Revenue Account on a premium basis but wholly charged to the current underwriting year.

NOTE 3

INVESTMENTS

Investments are made up of:

	1986 US$	19 US
Term Deposits ...	6,699,999	6,367,0
Subscription in Shelter-Afrique	1,020,000	1,020,0
	7,719,999	7,387,0

NOTE 4

BANK AND CASH BALANCES

The balances include an equivalent of US$2,071,766 (1985-US$1,092,535) representing temporary short term deposits in member countries' currencies awaiting approval for conversion to United States Dollars. No provision has been made for possible exchange losses or gains that might arise before the conversion.

NOTE 5

FIXED ASSETS

	Freehold & Capital Leasehold Property	Furniture Fittings & Equipment	Motor Vehicles	Total 1986	Total 1985
	US$	US$	US$	US$	US$
Cost					
At 1st January	353,734	829,470	114,279	1,297,483	1,139,373
Additions during the year	841	120,092	46,482	167,415	182,059
Disposals during the year	—	(7,289)	(20,599)	(27,888)	(23,949)
	354,575	942,273	140,162	1,437,010	1,297,483
Depreciation					
At 1st January	23,719	605,129	94,638	723,486	619,491
Charge for the year	7,092	105,655	21,162	133,909	123,755
On disposals during the year	—	(7,289)	(20,599)	(27,888)	(19,760)
	30,811	703,495	95,201	829,507	723,486
Net Book Value					
At 31st December	323,764	238,778	44,961	607,503	573,997

NOTE 6

CAPITAL STOCK AND PAID-UP CAPITAL

The authorised capital of the Corporation is US$15,000,000. Of this amount US$10,000,000 is initially available for subscription out of which the actual subscription amounted to US$9,320,000. Fifty per cent of the subscribed capital was called up and fully paid by 31st December 1982. The remaining fifty per cent of the subscribed capital shall be subject to call only as and when required by the Corporation.

The paid up capital is made up as follows:-

	1986 US$	1985 US$
Capital available for subscription	10,000,000	10,000,000
Unsubscribed Capital	680,000	680,000
Subscribed Capital	9,320,000	9,320,000
Deduct: Uncalled Capital	4,660,000	4,660,000
	4,660,000	4,660,000

NOTE 7

RETAINED EARNINGS

Balance at 1st January	1,397,911	(751,361)
Net Profit for the year	928,482	2,149,272
Balance at 31st December	2,326,393	1,397,911

NOTE 8

REINSURANCE AND RESERVE FUNDS

These represent the underwriting results of the still open years and a reserve for outstanding claims for the closed underwriting years. The composition is as follows:-

	Reinsurance Funds	Reserve Funds	Total 1986	Total 1985
	US$	US$	US$	US$
Fire and Accident	7,536,187	5,920,000	13,456,187	14,109,555
Marine and Aviation	4,181,394	8,077,168	12,258,562	12,697,016
Life	150,382	930,000	1,080,382	904,164
Exchange Profit/(Loss) on Reinsurance Deposits	—	—	273,848	(494,603
	11,867,963	14,927,168	27,068,979	27,216,132

Africa Re 10th Year Anniversary Celebrations at the Nairobi Regional Office

STATEMENT OF SUBSCRIPTIONS AND VOTING POWERS OF MEMBER STATES AS AT 31ST DECEMBER, 1986

Authorised Capital Stock US$15,000,000

ANNEX 1

	Members	Capital Available for Subscriptions No of Shares	Amount	Amount Not Subscribed	Amount Subscribed	Called Portion (50% of Subscribed)	Amount Paid	Voting Power in %
1.	Algeria	60	600,000	—	600,000	300,000	300,000	6.44
2.	Benin	10	100,000	—	100,000	50,000	50,000	1.07
3.	Burkina Faso	10	100,000	—	100,000	50,000	50,000	1.07
4.	Burundi	10	100,000	—	100,000	50,000	50,000	1.07
5.	Cameroun	30	300,000	—	300,000	150,000	150,000	3.22
6.	Central African Republic	10	100,000	—	100,000	50,000	50,000	1.07
7.	Chad	12	120,000	—	120,000	60,000	60,000	1.29
8.	Congo	13	130,000	—	130,000	65,000	65,000	1.40
9.	Côte d'Ivoire	25	250,000	—	250,000	125,000	125,000	2.68
10.	Egypt	60	600,000	—	600,000	300,000	300,000	6.44
11.	Ethiopia	28	280,000	—	280,000	140,000	140,000	3.00
12.	Gabon	16	160,000	—	160,000	80,000	80,000	1.72
13.	Gambia	10	100,000	—	100,000	50,000	50,000	1.07
14.	Ghana	33	330,000	—	330,000	165,000	165,000	3.54
15.	Guinea	10	100,000	—	100,000	50,000	50,000	1.07
16.	Guinea Bissau	10	100,000	—	100,000	50,000	50,000	1.07
17.	Kenya	26	260,000	—	260,000	130,000	130,000	2.79
18.	Liberia	10	100,000	—	100,000	50,000	50,000	1.07
19.	Libya	60	600,000	—	600,000	300,000	300,000	6.44
20.	Mali	10	100,000	—	100,000	50,000	50,000	1.07
21.	Mauritania	12	120,000	—	120,000	60,000	60,000	1.29
22.	Mauritius	14	140,000	—	140,000	70,000	70,000	1.50
23.	Morocco	60	600,000	—	600,000	300,000	300,000	6.44
24.	Niger	10	100,000	—	100,000	50,000	50,000	1.07
25.	Nigeria	60	600,000	—	600,000	300,000	300,000	6.44
26.	Senegal	21	210,000	—	210,000	105,000	105,000	2.25
27.	Sierra Leone	13	130,000	—	130,000	65,000	65,000	1.40
28.	Somalia	12	120,000	—	120,000	60,000	60,000	1.29
29.	Sudan	30	300,000	—	300,000	150,000	150,000	3.22
30.	Swaziland	11	110,000	—	110,000	55,000	55,000	1.18
31.	Tanzania	24	240,000	—	240,000	120,000	120,000	2.58
32.	Togo	11	110,000	—	110,000	55,000	55,000	1.18
33.	Tunisia	25	250,000	—	250,000	125,000	125,000	2.68
34.	Uganda	22	220,000	—	220,000	110,000	110,000	2.36
35.	Zaire	19	190,000	—	190,000	95,000	95,000	2.04
36.	Zambia	34	340,000	—	340,000	170,000	170,000	3.65
37.	African Development Bank	100	1,000,000	—	1,000,000	500,000	500,000	10.73
	Total	932	9,320,000	—	9,320,000	4,660,000	4,660,000	100.00
	Shares which have been allocated to Members of the Organisation of African Unity, but not yet subscribed.							
1.	Botswana	10	100,000	100,000	—	—	—	—
2.	Equatorial Guinea	10	100,000	100,000	—	—	—	—
3.	Lesotho	10	100,000	100,000	—	—	—	—
4.	Madagascar	18	180,000	180,000	—	—	—	—
5.	Malawi	10	100,000	100,000	—	—	—	—
6.	Rwanda	10	100,000	100,000	—	—	—	—
7.	Angola	17	170,000	170,000	—	—	—	—
8.	Cape Verde	10	100,000	100,000	—	—	—	—
9.	Comoros	10	100,000	100,000	—	—	—	—
10.	Djibouti	10	100,000	100,000	—	—	—	—
11.	Mozambique	19	190,000	190,000	—	—	—	—
12.	Sao Tome & Principe	10	100,000	100,000	—	—	—	—
13.	Seychelles	10	100,000	100,000	—	—	—	—
14.	Zimbabwe	30	300,000	300,000	—	—	—	—
		184	1,840,000	1,840,000				
	Total	1,116	11,160,000	1,840,000	9,320,000	4,660,000	4,660,000	100.00

ANNEX II

SUMMARY ADMINISTRATIVE BUDGET

for the period 1st January to 31st December, 1987

	1987 US$'000	1986 US$'000
Capital Expenditure (including Furniture, Fittings and Motor Vehicles)	360.00	292.60
Annual General Assembly (including hall facilities, transportation, subsistence allowances and travel expenses relating thereto)	93.00	105.00
Board of Directors' Meetings (including hall facilities, transportation, subsistence allowances, attendance fees and travel expenses relating thereto)	219.00	235.00
Emoluments of Management and Other Staff	2,564.00	2,621.73
Travel & Subsistence Expenses relating to operations, education and training	147.00	136.00
General Expenses	944.50	835.25
	4,327.50	4,225.58

Africa Re 10th Year Anniversary Celebrations at Headquarters–Lagos

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